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DEFENSE — A BATTLE ON TWO FRONTS

A statement by ALFRED H. WILLIAMS

NOTES ON REGULATION X

Restriction of real estate credit was designed to help restrain inflation and to help divert some men and materials from the housing boom to defense production. Alternative approaches to the problem seemed more burdensome.

CAPITAL FOR THE WORKSHOPS OF PHILADELPHIA

Capital expenditures for plant expansion and modernization of equipment are again on the increase in Philadelphia. Local concerns are planning to spend $110 million by September 1951. That is 16 per cent more than the actual outlays made during the preceding year. Most of the contemplated expenditures are going into plants making nondurables, notably petroleum and other chemicals. Little borrowing is required since most concerns have adequate resources.

CURRENT TRENDS

October department store sales were not in step with the expansion in factory output, employment and payrolls.

DEFENSE—A BATTLE ON TWO FRONTS

Communism is on the march and we in America are once again preparing to defend our freedom against a foreign threat. But the heavy expenditures required threaten the stability of our economic structure. A strong, stable economy at home is the keystone for effective action abroad.

These added defense requirements hit our economy when it is already riding the crest of a boom. Business and consumer spending, fed by a peak level of income after taxes and a record expansion of credit, is already taxing our capacity to produce. The enlarged defense program now getting under way will greatly intensify inflationary pressures. Defense production adds to incomes without adding to the supply of civilian goods for these incomes to buy. As defense expenditures increase, the gap between total purchasing power and the supply of civilian goods widens. The result will be rising prices and inflation unless positive steps are taken to mop up excess purchasing power.

One essential step in damping down the demand for civilian goods is for the Government to adopt a "pay-as-you-go-policy." Sufficient income should be siphoned off by taxation to pay all of the costs of Government, including defense. The recent increase in taxes was a step in this direction. Management of the Federal debt should also be directed toward absorbing current income. Vigorous efforts should be made to sell Savings Bonds and to channel other Treasury securities to non-bank buyers. The terms on refunding issues should be attractive enough to induce reinvestment of the proceeds of maturing issues.

A second necessary step in preventing the demand for civilian goods from becoming excessive is to restrict the use of credit. It is just as important to limit spending from future income as from current income. The Federal Reserve System has already taken action to restrict expansion both in the total quantity of credit and the use of credit for certain purposes. Regulations X and W help not only to restrain total credit expansion, but also to reduce the demand for new home construction and for consumers' durable goods, thus facilitating the shifting of more men and materials to defense production.

These fiscal and monetary tools should be our first line of defense against inflation. They are more compatible with the principles of a free economy and more suitable for a prolonged period of partial mobilization, such as seems to face us now. Direct controls by the Government, such as price control, wage control, and rationing, interfere with the freedom of the individual in making many decisions. Neither do they solve the problem of inflation; they merely suppress it. Unless drained off by fiscal and monetary policies, excess purchasing power continues to accumulate and the problem of inflation must be faced as soon as controls are removed. Moreover, to rely on direct controls for a prolonged period might imperil the very freedom we are spending billions to defend.

Effective action to check inflation and to maintain a stable economy is an essential foundation for a strong national defense. Self-restraint, heavier taxation, and credit restrictions are a part of the price we must pay to maintain our freedom. Higher taxes and credit restrictions are not added burdens which would not have to be borne otherwise; rather, they represent less painful methods of meeting the burden already imposed by foreign aggression. Our willingness to cooperate and to impose voluntary restraint is a measure of the intensity of our desire to remain free. With unity of purpose and a sense of mutual responsibility, we can establish an impregnable defense.

Alfred H. Williams

President

NOTES ON REGULATION X

Two months have passed since the issuance of Regulation X. For the first time, by action of Congress and the President, the Federal Reserve System has been given responsibility for the control of certain types of real estate credit. Government has long had an interest in real estate and real estate credit operations. The business community and the general public have become accustomed to the administrative rules of the Federal Housing Administration and the Veterans' Administration in connection with loans that are insured or guaranteed by those agencies. In view of the long history of regulation in this field, it would appear that the main concern attending the issuance of Regulation X was not the fact that it is another regulation, but the fact that it is a restrictive measure.

Why restrict real estate lending? For two basic, interrelated reasons: first, to help divert materials and manpower from the biggest housing boom this nation has ever seen to defense purposes; second, to help restrain inflation in the real estate field and in the economy generally.

Extremely "easy" credit, much of it guaranteed or insured, helped stimulate the demand for new housing in 1950. Outstanding home mortgage indebtedness has been rising by about $5 billion a year, as compared with increases of about $2 billion a year during the prosperous 'twenties. Builders started about 1,400,000 housing units during 1950 and, from all accounts, had no difficulty selling them. With equally liberal credit terms and continued high incomes, demand might have come near that level again in 1951. But the best estimate that can be made thus far indicates that after defense needs are met, materials and manpower will be available for only 800,000 to 850,000 housing units.

The Alternatives

The difference between the supply of new homes and the demand for them could be resolved in several ways. One way would be to permit prices of materials and labor to be bid up until the "surplus" buyers were priced out of the market. To some extent this is what has happened during the last year. "Over-scale" building wages are a manifestation of it. The so-called "grey markets" are another sign. In this process the Government, also a competing buyer, would be forced to spend much larger sums of money; prices for existing real estate would be forced to new highs; mortgage debt, based on inflated values, would continue to climb at an accelerating rate, bringing a growing headache to mortgage lenders and the danger of heavy losses if the market should decline sharply.

A second alternative would be direct rationing of building materials available after Government needs are met. During World War II, Order L-41 gave us some experience with this method. It would mean price control, and allocation of labor and supplies by some central authority. That authority would have to tell builders what to build, where to build, when to build. It cannot work, of course, unless price and wage controls and rationing are fairly generally applied throughout the economy.

A third alternative is to restrict the demand for housing by reducing the credit available to prospective purchasers. This is the method employed by Regulation X. It is in this way, too, that Regulation W is meant to reduce the demand for consumers' goods. Together these two "selective" credit controls may slow down the creation of new purchasing power that is ultimately diffused and which exerts upward pressure on prices throughout the economy.

No one, least of all those who are responsible for administering Regulations X and W, believes that these selective controls can do the job alone. To be effective, they must be coordinated with other measures in an integrated program comprising general monetary controls and appropriate fiscal policies. While some degree of direct allocation of materials and limitation of resource use may be unavoidable, depending upon the intensity of the defense effort, Regulations X and W will go a long way toward the creation of an adequate monetary-fiscal alternative to all-out controls.

The Regulation Itself

The requirements of Regulation X with respect to lending terms are three-pronged. They specify maximum loan values, maximum maturities and certain amortization re-

quirements. Any credit that is secured by "new construction," as the regulation defines it, or which is for the purpose of "new construction," is subject to the maximum loan provisions, and no registrant may lend more than the maximum allowed in any secondary form on any collateral—with just one exception. Credit that is fully secured by the loan value of a life insurance policy is excluded from the prohibitions of the regulation.

The provisions of Regulation X are administered by the Board of Governors and apply to "conventional" residential real estate loans only—that is, to loans which are not insured or guaranteed by any Government agency. However, the concurrence of the Housing and Home Finance Administrator had to be obtained in formulating the regulation, and the Administrator, who has jurisdiction over Government-aided credit programs, had to see to it, in turn, that the provisions of Regulation X were applied as fully as was practicable to the FHA-insured and VA-guaranteed loans. The G.I. retains a preference—Congress, in the Defense Production Act, specified that this was to be the case. But the result of close coordination of the efforts of the Board of Governors and the Housing and Home Finance Administrator has been the issuance of rules and regulations that are in close conformance on basic issues.

There are some rather important differences, however, between Regulation X, covering conventional lending, and the rules governing insured and guaranteed loans. The Defense Production Act, upon which Regulation X is based, provides that restrictions on "conventional" lending shall apply to "new" residential building only, that is, to new residences and major improvements and repairs started after August 3, 1950. The Federal Housing Administration and the Veterans' Administration have wider authority, and in the case of loans guaranteed or insured by them, the new provisions apply to existing as well as "new" homes.

Another difference for lenders to bear in mind is a procedural one. In the case of Government insured or guaranteed loans, each application must, of course, be approved by the agency concerned. Thus, the responsibility for compliance with the rules in each individual case resides to a large extent with the FHA or the VA. Once an application for loan insurance has been processed and has been approved, the lender knows that the loan conforms to the rules. If the loan does not conform, it is rejected. In the case of "conventional" loans, however, the responsibility for observing Regulation X rests squarely on the lender and the borrower. The Federal Reserve Bank is not required to approve or disapprove each loan as it is made. Real estate credit subject to Regulation X can be arranged by lender and borrower, face to face, without waiting on the opinion of a third party; but every registrant under the regulation is responsible for observing the provisions of the regulation and must maintain records which show that he has observed them.

It is essential, therefore, that lenders understand the mechanics of Regulation X. The Real Estate Credit Departments of this Bank and of the Board of Governors are making every effort to see that adequate information is widely distributed in this district. The Real Estate Credit staff of the Federal Reserve Bank of Philadelphia, headed by Herbert O. Frey, Administrator, is eager to clarify doubtful points whenever questions are raised. The hundreds of queries received during the last two months attest to a widespread and strong desire on the part of bankers and other lenders to cooperate in the administration of real estate credit controls.

The Effects

The credit limitations imposed by Regulation X and the FHA and VA vary in their impact on different segments of the real estate market. Many conservative real estate lenders, especially those whose statutory lending limits are rather strict, will be little affected as far as their non-insured lending practices are concerned. Some communities where lending standards were high will be little affected. But the regulation was meant to be restrictive—it had to be to accomplish its purpose—and there is no doubt that it will cut new building. Exactly how much it will cut is difficult to say. Using the best information available, it was designed to bring new housing starts down to about 800,000 a year. If it becomes clear that the terms of the regulation are undershooting or overshooting the mark, or if defense requirements necessitate a change in the goal, Regulation X can be liberalized or tightened. The Federal Reserve Banks and the Board of Governors will watch closely for indications that changes are required.

Thus far it is almost impossible to gauge the effect of Regulation X. Builders are still working on a large volume of outstanding commitments and buyers can still buy many new homes on the old, easy terms. It is apparent that long-range planning by builders has been cut

considerably, but in all probability it will be late spring before an adequate test can be made. Among the important unknowns is the effect of higher down payments on homes in the low-price bracket. Within the last year or two, down payments on a very large proportion of such homes have been considerably below the new minimum requirements. Whether this means that all such buyers will be put out of the market or not remains unanswered, however. High incomes and large holdings of liquid assets may mean that the new requirements will bring a lot of unused dollars out of the savings account—or out of the mattress—and that homes will be purchased in larger numbers than expected. We shall have to wait and see, trying, in the meantime, to make the regulation work in the hope that more drastic and more burdensome direct controls can be avoided.

CAPITAL FOR THE WORKSHOPS OF PHILADELPHIA

"Spare money is called capital." So once said the great English playwright who was also a socialist, vegetarian, and capitalist. Had he been as great an economist as he was a playwright, he would not have confined his definition of capital to footloose cash, because capital is more than just spare cash.

Most capital is in the form of land, buildings, machinery, elevators, rolling stock, storage tanks, inventories, nails, scissors, hammers and ladders, and all the other paraphernalia of production. Everything the waterworks owns is its capital no matter who owns the waterworks. Trees in the forest are capital and so are trees on the farm. In the United States there are exactly 1,182 different kinds of trees—an amazing variety. There might be almost as many varieties of capital in the forest of American industry if anyone took the trouble to make a count.

Economists divide all capital into two major classes—circulating and fixed. Commercial bankers deal in the former and investment bankers, the latter. The rest of this article is about fixed capital. More precisely, it is about capital being tied up or invested in the workshops of Philadelphia.

Almost everybody knows that Philadelphia is one of the country's greatest centers of manufacturing. Curiously, nobody knows just how much capital is invested in the city's 5,244 manufacturing enterprises. Worse still, no one ever will know because it is forever changing. The term "fixed capital" is really a misnomer. There is probably nothing less fixed than fixed capital. It is always increasing and decreasing simultaneously; increasing by way of physical additions and appreciation, decreasing by way of physical destruction, natural deterioration, and also depreciation and obsolescence. Sometimes, additions are ahead of deductions; at other times, additions fall behind.

Matters like appreciation, depreciation, and obsolescence border on the metaphysical; they are the happy hunting grounds of the accountants. But gross additions by construction of new plant or installation of new equipment are subject to census enumeration and special survey. This Bank has just completed its fifth annual survey of capital expenditures made by manufacturing concerns in Philadelphia, as one means of finding out whether our local economy is driving upstream or drifting down. As always, we share the findings with you.

A SUMMARY

1. Manufacturing concerns in Philadelphia are planning to spend $110 million on new plants and new equipment in the year ending mid-September, 1951. This is considerably more—16 per cent—than was actually invested during the year ended mid-September, 1950. The increase halts the downward trend of investment programs which began after 1947.
2. Producers of soft goods are contemplating the greater part of the total new outlays; expenditures by the producers of hard goods will be practically unchanged.
3. The bulk of the new money will again go for replacement and modernization of existing facilities, but the *percentage* earmarked for construction will be increased.
4. Capital needs will again be financed largely from internal sources. Past earnings, retained current profits, and depreciation reserves will make up 90 per cent of the funds used for capital expansion.
5. Actual capital expenditures during the past year topped the budget estimates made in September, 1949, by 12 per cent.

ESTIMATED CAPITAL EXPENDITURES — MANUFACTURING INDUSTRIES IN PHILADELPHIA

(In thousands of dollars)

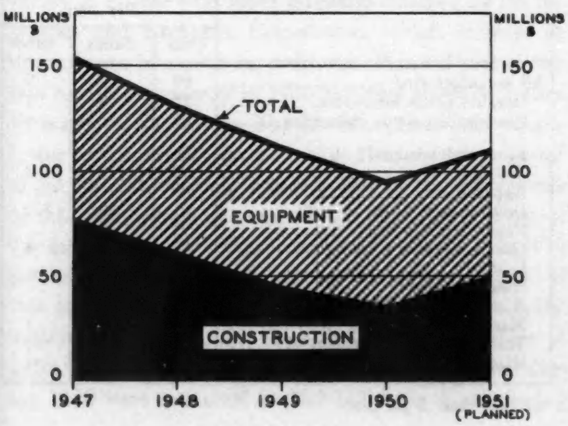
	Nov. 1947 to Sept. 1948	Oct. 1948 to Sept. 1949	Oct. 1949 to Sept. 1950	To be spent within next year
All manufacturing	130,130	111,261	94,895	110,033
Durable goods industries	28,431	32,833	31,623	31,893
Nondurable goods industries	101,699	78,428	63,272	78,140
Food and tobacco	19,589	15,680	16,432	17,947
Textiles	24,784	23,882	11,598	10,682
Apparel	1,028	2,538	1,020	858
Lumber and furniture	1,141	1,283	1,065	831
Paper and printing	26,052	12,358	7,929	8,351
Chemicals and petroleum	25,460	17,738	20,074	31,793
Leather	449	955	1,210	735
Iron and steel	6,684	8,513	3,949	5,143
Non-ferrous metals	833	494	2,438	901
Machinery (incl. electrical)	11,031	13,486	14,781	15,359
Transportation equipment	7,648	7,035	8,277	7,396
Miscellaneous	5,431	7,299	6,122	10,037

6. Manufacturing employment is considerably above that of September a year ago and is expected to rise further for some months to come.

Capital Expenditures in 1951

The $110 million earmarked for the current year's plant expansion and installation of new equipment is $15 million, or 16 per cent, more than was invested during the year ended in September, 1950. There is really nothing phenomenal about the amount of the increase, but it is the first increase in three years, as the table shows. Spending for plant and equipment in this area is again up to the '49 level but still considerably below 1947, when an investment peak of $153 million was reached. Peak expenditures on a nation-wide basis, you may recall, occurred in 1948. Those were the days when the big talk in the press was the Marshall Plan, the "cold war," the adequacy of our steel capacity, and the big basing point controversy. Some of those issues have since cooled off and others have gotten hotter.

CAPITAL EXPENDITURES BY PHILADELPHIA MANUFACTURERS



Which Industries Are Spending the Money?

Manufacturers of nondurables will be responsible for almost all of the contemplated increase in capital expenditures during the coming year. Also, over 70 per cent of the total of the estimates has been planned by the industries making soft goods such as apparel, textiles, chemicals and petroleum products, food, tobacco, paper and printing, and leather products. On the other hand, producers of durables expect to spend just about the same amount ($32 million) on construction and equipment in 1951 that they spent during the year just past. There are, however, exceptions in both major groups, indicated in the accompanying chart.

Contrary to the plans of most concerns in the nondurable lines, capital outlays by firms in the textile industry are being curtailed, and reductions are indicated for the apparel and leather industries. In the durables, there is no uniform trend. Planned increases in expenditures by the iron and steel and machinery industries are almost completely offset by the anticipated reductions of other members of the group.

Not all manufacturing groups covered by the survey are of equal importance in this area. Chemical and

petroleum companies are again the biggest investors, as they were last year. Their $32 million expansion program represents about 30 per cent of total estimated spending; in fact, they plan to spend about as much as all the city's producers of durable goods together. The food and tobacco and machinery groups are next in importance, accounting for 16 and 14 per cent, respectively. The city's textile mills are to spend twice as much as the city's steel mills. That looks good for textiles, but then Philadelphia has long been noted as a textile center.

CAPITAL EXPENDITURES 1950 AND 1951

Construction vs. Equipment

Although the largest portion of capital investment funds will continue to be spent on equipment rather than on construction in 1951, there will be a shift in the relative importance of the two categories with greater emphasis upon building. About 44 per cent of all outlays is scheduled for plant additions and modernization, as compared to only 36 per cent in 1950. The ratio of construction to equipment is expected to remain unchanged in the durable goods industries; it is the nondurables where increased construction is to take place. Expenditures in this group are about equally divided between new plant and new equipment. Significant factors in the changing proportions are the increases in construction estimates of food and tobacco, and paper and printing industries.

Not all industries, of course, conform to the trend toward more construction activity. For instance, the producers of chemical and petroleum products, while budgeting roughly one-third more on construction than was spent last year, have practically doubled their scheduled outlays for new equipment. This may be due in part to the heavy depreciation customarily experienced in that industry. It may also be noted that in textile mills only about one-seventh of their scheduled outlays are going into new plant. This industry, unlike petroleum refining, for example, has a notorious flexibility of capacity depending upon whether it operates in one, two, or three shifts.

Financing Capital Expenditures

There will be no appreciable change during the coming year in the sources of funds used for capital expenditures. Manufacturers will rely upon their own resources—funds derived from years of profitable operation—for about 90 per cent of the required amounts. In the 1946 survey, by way of contrast, respondents reported that they expected to use their own money for only 56 per cent of requirements. Apparently, most firms are in a better financial condition than they were four years ago.

Although industry generally is well off financially, there are noteworthy differences in financial independence from one industry to another. The lumber and furniture manufacturers intend to borrow about 40 per cent of their requirements from the banks, but the transportation equipment and apparel firms, not a penny.

SOURCES OF FUNDS FOR CAPITAL EXPENDITURES TO BE MADE WITHIN THE NEXT YEAR

	Per cent		
	Own	Banks	Other
All manufacturing	90	7	3
Durable goods industries	91	8	1
Nondurable goods industries	89	7	4
Food and tobacco	88	12	..
Textiles	90	8	2
Apparel	100	..	..
Lumber and furniture	61	39	..
Paper and printing	91	9	..
Chemicals and petroleum	87	5	8
Leather	90	10	..
Iron and steel	87	13	..
Non-ferrous metals	77	23	..
Machinery (including electrical)	90	8	2
Transportation equipment	100	..	..
Miscellaneous	100	(a)	..

(a) Less than .5 per cent

Anticipated and Actual Expenditures for 1950

Changing business conditions presumably caused businessmen to revise capital investment plans during the past year. Not only were total expenditures 12 per cent above original estimates, but the proportions spent on construction and equipment were revised.

The largest upward revisions were made by the producers of machinery, both electrical and non-electrical. Expansion and improvement of facilities in this branch were due in large measure to the exceptional demand for television and other household plug-ins. Capital outlays also were stepped up beyond original estimates by the paper makers, printers, and textile people. In Philadelphia, paper makers are predominantly so-called converters, that is, producers of finished paper products rather than manufacturers of raw stock.

In most industries the upward revisions were on equipment rather than on construction; in fact, total industry construction fell behind original plans, as already indicated. Actual construction fell short of plans by the greatest amount in the chemical and petroleum groups. Contrary to the general trend, actual construction outlays were greater than planned in textiles, lumber and furniture, paper and printing, leather, non-ferrous metals, machinery, and transportation equipment, but in some of these industries the excess of actual over contemplated outlays was small, probably due to rising prices raising construction costs.

Capital Expenditures on a National Scale

Because of the difference in the period of time covered by our local survey and the national surveys, only a general, not a precise, comparison can be made. Our local survey is in line with latest estimates released by the Securities and Exchange Commission, which indicate an upward turn in capital expenditures. Planned capital outlays for the last quarter of 1950 had been raised $1 billion by reason of the Korean War stimulus. Outlays by manufacturing concerns in the last half of 1950 are now expected to hit an all-time high. Expenditures in the last quarter of this year, which corresponds with the first quarter of our local survey for 1951, are estimated to be at a level 17 per cent above that of the last three months of 1949. If this trend continues into next year, the nation's capital outlays in 1951 will, like those locally, be above those of 1950. Expenditures by the country's manufacturers during 1950 were estimated at $6.7 billion at the beginning of the year. They are now expected to reach $7.8 billion—an increase of almost 16 per cent compared with our local advance of 12 per cent. However, one big difference in the national and local trends is quite apparent. Philadelphia firms did not top the preceding year's expenditures in 1950 as did nationwide expenditures.

Trend of Manufacturing Employment

In harmony with the general trend, local manufacturing employment increased from September, 1949, to September, 1950. Expansion took place in both major manufacturing divisions—durables and nondurables. Our survey reveals that producers of durable goods, who had the smaller number of workers in the aggregate, had the greater increase in employment. However, all individual groups, with the exception of apparel, chemicals and petroleum, and transportation equipment, reported gains over a year ago. The machinery industries, so important in this area, showed the most substantial rise in actual numbers. Employment in the chemical and petroleum industries continued to be rather stable. Those are the firms that made the largest capital outlays last year and are apparently the leaders also this year.

EMPLOYMENT BY PHILADELPHIA MANUFACTURING FIRMS

	In thousands of persons—			
	Sept. 1949 (Actual)	Sept. 1950 (Actual)	Dec. 1950 (Estimated)	March 1951 (Estimated)
All manufacturing	325	345	353	358
Durable goods industries	129	141	144	147
Nondurable goods industries	196	204	209	211
Food and tobacco	40	41	40	40
Textiles	38	40	41	41
Apparel	30	29	32	34
Lumber and furniture	5	6	6	6
Paper and printing	44	45	46	45
Chemicals and petroleum	19	19	19	19
Leather	8	9	9	9
Iron and steel	34	38	39	40
Non-ferrous metals	6	7	8	8
Machinery (incl. electrical)	54	62	63	64
Transportation equipment	27	26	26	27
Miscellaneous	20	23	24	25

Most industries anticipate further employment increases during the next year. Several of them expressed concern over possible shortages of skilled workers in the future. Producers of nondurables expect employment to rise considerably until the end of the year and thereafter the rate of advance will slow up. Producers of durables report that a steady rise is expected for some months to come.

INFERENCES

The facts you already have as above reported. They are based on just a sample, but a good one. Half of the firms polled were, as usual, too busy to reply but the half that did reply represent all major classes of Philadelphia enterprise in manufacturing. Few of the respondents made verbal comments, so we shall have to make our own inferences from the facts supplied.

Last September a year ago, Philadelphia manufacturers said they were going to spend so much on plant, but they spent less; so much on equipment, but they spent more; so much on both, but they spent more. Why? Primarily because the profit outlook improved in the ensuing year. When the September '49 poll was taken businessmen had not yet completely recovered from whatever it was that hit them in the first half. But with vacations ending, courage returned and each succeeding month picked up more strength. People kept on borrowing, building, and spending. The profit outlook continued to improve. Probably the chief reasons why outlays on plant construction failed to exceed the estimates were the shortages of cement and steel—indispensable building materials.

According to the latest survey, Philadelphia industrialists are planning to step up their 1951 outlays, particularly for plant expansion, above last year's expenditures. This may be interpreted to mean that local businessmen expect improved profit-making opportunities. The most apparent change in the business outlook is, of course, the increased purchases by the Federal Government for national defense. However, it is easy to credit Korea too much for our prosperity at home. Most of our prosperity arises not from fighting abroad but "fighting" at home for the goods and services that are scarce relative to the abundance of dollars.

Capital expansion in Philadelphia, unfortunately, is not being planned over a broad industrial front. Almost one-third is confined to one industry group—chemicals and petroleum. Three reasons are in evidence. First, it is one of the largest Philadelphia industries and therefore requires more capital to hold its position. Second, it is one of the most highly mechanized industries. Just visit a modern petroleum refinery and you will understand why oil refining stands at the top of American industries in capital investment per worker. Third, chemicals generally and petroleum in particular are comparatively young industries. They still have the vigor of youth characterized by rapidly changing technology and expanding markets.

Since the end of World War II, manufacturing concerns have spent about a half billion dollars on plant expansion and equipment modernization. This looks like an impressive performance, but there is really no standard of measurement. Perhaps local businessmen should have spent more to preserve the city's reputation as an industrial center. Industrialization of communities nearby seems to be taking place at a faster rate, which may be more desirable for all concerned.

CURRENT TRENDS

The steady rate of gain of business indicators which characterized recent months in the Philadelphia Federal Reserve District slowed up somewhat in October. Output of oil and coal rose; in the industrial field, production, employment, and payrolls increased, but only moderately. On the other hand, bank loans, deposits, and investments showed no change, and department store sales fell from September levels. Construction declined because of a reduction in building other than residential; however, even with the cutback, the total volume of construction was well above that of 1949. Nationally, the consumer price index extended recent gains and a new all-time high was reached. In Philadelphia, prices were unchanged and still 0.6 per cent below the record set in August and September of 1948.

Although there was a slackening of new orders in October, Pennsylvania manufacturers enlarged labor forces and lengthened working hours in their endeavor to expand production. The durable goods industries rather than the nondurable concerns did most of the stepping-up, but activity in both major divisions was well above the level of last October. Compared with last year, increases are most pronounced in hard goods, but allowance must be made for the coal and steel strikes which depressed production in the fall of 1949.

Department store sales declined again in October but were above those of last year for the fifth consecutive month. While sales were going down, stocks were going up. Consequently, some department stores have an unusually large volume of merchandise on their shelves. With near-record employment and disposable income at a new peak, considerable optimism regarding Christmas selling prevails. Apparently, merchants have stocked up in anticipation of a holiday business of huge volume.

The increase in business loans at weekly reporting banks in the Third District, while larger in November than in the preceding period, was much slower than during the summer months. Real estate and consumer loans continue to expand. Investments, which previously had been declining, increased through November 22, but decreased substantially in the last week of the month.

The Nation's privately owned money supply increased $1.3 billion in October and was more than $5 billion larger than a year ago. Most of this increase was in demand deposits, reflecting the rise in bank loans. The rate of demand deposit turnover was down slightly but still considerably above a year ago.

SUMMARY	Third Federal Reserve District — Per cent change			United States — Per cent change		
	October 1950 from		10 mos. 1950 from year ago	October 1950 from		10 mos. 1950 from year ago
	mo. ago	year ago		mo. ago	year ago	
OUTPUT						
Manufacturing production	+ 2*	+32*	+ 4*	+ 1	+ 27	+12
Construction contracts	− 5	+28	+38	−10	+ 16	+45
Coal mining	+23	+11	+ 8	+ 8	+194	+16
EMPLOYMENT AND INCOME						
Factory employment	+ 1*	+26*	+ 1*	0	+ 15	+ 4
Factory wage income	+ 3*	+47*	+ 7*	.....	.....	.....
TRADE**						
Department store sales	−10	+ 7	+ 6	− 9	+ 5	+ 6
Department store stocks	+ 3	+23	.....	+ 6	+ 21	.....
BANKING (All member banks)						
Deposits	0	+ 5	+ 5	+ 1	+ 5	+ 4
Loans	0	+20	+12	+ 2	+ 21	+10
Investments	0	− 3	+ 5	0	− 4	+ 5
U. S. Govt. securities	0	− 6	+ 3	0	− 8	+ 3
Other	− 1	+11	+13	0	+ 22	+20
PRICES						
Wholesale	.....	.....	.....	0	+ 11	+ 2
Consumers	0†	+ 3†	0†	+ 1	+ 4	0
OTHER						
Check payments	+ 9	+18	+17	+ 2	+ 24	+13
Output of electricity	+ 2	+14	+ 8	.....	.....	.....

*Pennsylvania

**Adjusted for seasonal variation. †Philadelphia.

LOCAL CONDITIONS	Factory* Employment — Per cent change Oct. 1950 from		Factory* Payrolls — Per cent change Oct. 1950 from		Department Store Sales — Per cent change Oct. 1950 from		Department Store Stocks — Per cent change Oct. 1950 from		Check Payments — Per cent change Oct. 1950 from	
	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago
Allentown	+ 3	+ 60	+ 2	+ 86	.....	.....	.....	.....	+ 9	+39
Altoona	+ 1	+190	+13	+353	.....	.....	.....	.....	+ 9	+29
Harrisburg	+ 1	+ 40	+ 1	+ 64	.....	.....	.....	.....	+ 8	+14
Johnstown	− 1	+306	− 4	+506	.....	.....	.....	.....	− 3	+40
Lancaster	+ 2	+ 4	+ 3	+ 21	−5	+4	+17	+18	+17	+24
Philadelphia	+ 1	+ 8	+ 3	+ 21	−2	+6	+14	+26	+10	+15
Reading	+ 1	+ 13	+ 5	+ 27	−5	+5	+19	+16	+ 2	+22
Scranton	0	+ 9	+ 4	+ 23	.....	.....	.....	.....	+12	+32
Trenton	.....	.....	.....	.....	−8	+4	+13	+10	+ 3	+13
Wilkes-Barre	− 1	0	0	+ 8	−9	+2	+16	+20	+ 6	+16
Williamsport	+ 1	+ 24	+ 4	+ 41	.....	.....	.....	.....	− 5	+20
Wilmington	−11	+ 9	−11	+ 29	.....	.....	.....	.....	+ 5	+29
York	+ 4	+ 13	+11	+ 31	−8	−1	+14	+17	+ 9	+26

*Not restricted to corporate limits of cities but covers areas of one or more counties.

MEASURES OF OUTPUT

	Per cent change: Oct. 1950 from month ago	Per cent change: Oct. 1950 from year ago	Per cent change: 10 mos. 1950 from year ago
MANUFACTURING (Pa.)	+ 2	+ 32	+ 4
Durable goods industries	+ 3	+ 61	+ 4
Nondurable goods industries	+ 1	+ 7	+ 3
Foods	− 2	0	− 1
Tobacco	+ 8	− 5	− 9
Textiles	+ 1	+ 7	+ 6
Apparel	+ 5	+ 4	+ 3
Lumber	+ 5	+ 23	+ 4
Furniture	+ 3	+ 25	+30
Paper	+ 1	+ 9	+ 9
Printing and publishing	− 4	− 2	− 2
Chemicals	+ 1	+ 15	+ 3
Petroleum and coal products	0	+ 37	+ 1
Rubber	+ 5	+ 43	+22
Leather	+ 3	+ 5	0
Stone, clay and glass	+ 8	+ 19	+ 1
Primary metal industries	+ 1	+275	+13
Fabricated metal products	+ 3	+ 66	+ 5
Machinery (except electrical)	+ 7	+ 29	− 1
Electrical machinery	+ 3	+ 20	+ 4
Transportation equipment	− 5	− 2	−19
Instruments and related products	+ 6	+ 24	+ 1
Misc. manufacturing industries	+12	+ 14	+ 9
COAL MINING (3rd F. R. Dist.)*	+23	+ 11	+ 8
Anthracite	+26	− 2	+ 8
Bituminous	+ 4	+680	+10
CRUDE OIL (3rd F. R. Dist.)**	+ 6	+ 15	+ 1
CONSTRUCTION — CONTRACT AWARDS (3rd F. R. Dist.)†	− 5	+ 28	+38
Residential	+ 5	+ 57	+80
Nonresidential	− 9	+ 47	+33
Public works and utilities	−18	− 23	+ 1

*U.S. Bureau of Mines.
**American Petroleum Inst. Bradford field.
†Source: F. W. Dodge Corporation. Changes computed from 3-month moving averages, centered on 3rd month.

EMPLOYMENT AND INCOME

Pennsylvania Manufacturing Industries* Indexes (1939 avg. =100)	Employment: Oct. 1950 (Index)	Employment: Per cent change from mo. ago	Employment: Per cent change from year ago	Payrolls: Oct. 1950 (Index)	Payrolls: Per cent change from mo. ago	Payrolls: Per cent change from year ago	Average Weekly Earnings: Oct. 1950	Average Weekly Earnings: % chg. from year ago	Average Hourly Earnings: Oct. 1950	Average Hourly Earnings: % chg. from year ago
All manufacturing	139	+ 1	+ 26	369	+ 3	+ 47	$59.44	+16	1.457	+10
Durable goods industries	161	+ 2	+ 50	405	+ 3	+ 77	64.68	+18	1.561	+ 9
Nondurable goods industries	118	0	+ 4	322	+ 2	+ 15	52.45	+10	1.312	+ 7
Foods	134	− 2	+ 1	308	− 2	+ 6	51.42	+ 5	1.244	+ 5
Tobacco	89	+ 3	− 9	246	+11	+ 5	36.12	+15	.914	+12
Textiles	87	0	+ 4	263	+ 5	+ 14	53.94	+10	1.327	+ 7
Apparel	140	0	+ 1	391	+ 6	+ 13	39.56	+11	1.069	+ 9
Lumber	176	+ 3	+ 19	459	+ 6	+ 32	45.35	+10	1.054	+ 7
Furniture	154	+ 2	+ 25	447	+ 5	+ 36	53.51	+ 9	1.220	+ 9
Paper	145	+ 2	+ 6	404	+ 3	+ 15	59.98	+ 8	1.368	+ 5
Printing and publishing	119	− 2	− 2	299	− 3	+ 4	71.25	+ 7	1.792	+ 5
Chemicals	145	0	+ 12	394	+ 1	+ 25	64.49	+12	1.531	+ 7
Petroleum and coal products	156	− 1	+ 45	391	− 2	+ 44	75.32	− 1	1.848	− 2
Rubber	245	+10	+ 33	671	+ 6	+ 48	67.90	+12	1.652	+ 4
Leather	93	0	+ 1	248	+ 5	+ 15	45.64	+14	1.153	+10
Stone, clay and glass	139	+ 5	+ 10	371	+ 8	+ 27	61.36	+15	1.512	+ 8
Primary metal industries	134	+ 1	+207	335	0	+301	69.51	+31	1.716	+ 7
Fabricated metal products	176	+ 1	+ 54	457	+ 3	+ 77	61.75	+16	1.472	+ 8
Machinery (except electrical)	224	+ 3	+ 17	588	+10	+ 37	66.63	+17	1.533	+ 6
Electrical machinery	258	+ 4	+ 19	562	+ 5	+ 24	60.91	+ 4	1.476	+ 2
Transportation equipment	142	− 2	− 11	352	− 4	− 1	70.47	+11	1.794	+ 7
Instruments and related products	173	+ 3	+ 16	463	+ 8	+ 32	61.23	+13	1.483	+ 6
Misc. Manufacturing Industries	150	+10	+ 9	390	+14	+ 22	53.03	+13	1.214	+ 7

*Production workers only.

TRADE

Third F. R. District Indexes: 1935-39 Avg. =100 Adjusted for seasonal variation	Oct. 1950 (Index)	Per cent change: Oct. 1950 from month ago	Per cent change: Oct. 1950 from year ago	Per cent change: 10 mos. 1950 from year ago
SALES				
Department stores	279	−10	+ 7	+6
Women's apparel stores	211	− 8	0	−7
Furniture stores	....	− 7*	+ 2*	+8*
STOCKS				
Department stores	283p	+ 3	+23	....
Women's apparel stores	243	+ 1	+19	....
Furniture stores	....	+ 9*	+24*	....

Recent Changes in Department Store Sales in Central Philadelphia	Per cent change from year ago
Week ended November 4	−11
Week ended November 11	− 2
Week ended November 18	+ 9
Week ended November 25	−10

*Not adjusted for seasonal variation. p-preliminary.

Departmental Sales and Stocks of Independent Department Stores Third F. R. District	Sales: % chg. Oct. 1950 from year ago	Sales: % chg. 10 mos. 1950 from year ago	Stocks (end of month): % chg. Oct. 1950 from year ago	Stocks: Ratio to sales (months' supply) October 1950	Stocks: Ratio to sales (months' supply) October 1949
Total — All departments	+ 5	+ 3	+25	3.3	2.8
Main store total	+ 6	+ 5	+25	3.6	3.0
Piece goods and household textiles	0	+ 1	+26	4.0	3.1
Small wares	+ 2	+ 2	+24	4.6	3.8
Women's and misses' accessories	+ 4	+ 2	+26	3.8	3.1
Women's and misses' apparel	+ 1	− 5	+16	2.4	2.1
Men's and boys' wear	+ 9	+ 5	+21	4.6	4.1
Housefurnishings	+11	+17	+32	3.2	2.7
Other main store	− 1	− 1	+27	5.0	3.9
Basement store total	+ 2	− 2	+22	2.3	1.9
Domestics and blankets	+15	+10	+40	2.6	2.2
Small wares	− 8	+ 6	+16	2.7	2.1
Women's and misses' wear	0	− 7	+20	2.0	1.6
Men's and boys' wear	+ 8	+ 2	+23	2.9	2.5
Housefurnishings	− 1	+ 2	+28	2.3	1.7
Shoes	− 2	− 1	+ 9	3.1	2.8
Nonmerchandise total	+ 3	+ 3	....	....	....

CONSUMER CREDIT

Sale Credit Third F. R. District	Sales		Receivables (end of month)
	% chg. Oct. 1950 from year ago	% chg. 10 mos. 1950 from year ago	% chg. Oct. 1950 from year ago
Department stores			
Cash	+ 3	− 1	....
Charge account	+10	+ 7	+13
Instalment account	+ 1	+20	+37
Furniture stores			
Cash	+ 3	− 2	....
Charge account	+23	+16	....
Instalment account	+ 5	+13	+23

Loan Credit Third F. R. District	Loans made		Loan balances outstanding (end of month)
	% chg. Oct. 1950 from year ago	% chg. 10 mos. 1950 from year ago	% chg. Oct. 1950 from year ago
Consumer instalment loans			
Commercial banks	+28	+57	+ 9
Industrial banks and loan companies	+ 3	+ 7	+12
Small loan companies	−34	−36	+12
Credit unions	+13	+27	+36

PRICES

Index: 1935-39 average = 100	Oct. 1950 (Index)	Per cent change from month ago	Per cent change from year ago
Wholesale prices—United States	210	0	+11
Farm products	234	−1	+11
Foods	218	−3	+ 8
Other	199	+1	+11
Consumer prices			
United States	175	+1	+ 4
Philadelphia	174	0	+ 3
Food	205	−1	+ 4
Clothing	189	+1	+ 2
Fuel	147	+1	+ 2
Housefurnishings	211	+4	+10
Other	155	+1	+ 2

Weekly Wholesale Prices—U.S. (Index: 1935-39 average = 100)	All commodities	Farm products	Foods	Other
Week ended November 7	211	239	219	200
Week ended November 14	212	241	223	200
Week ended November 21	212	243	224	200
Week ended November 28	213	244	225	200

Source: U.S. Bureau of Labor Statistics.

BANKING

MONEY SUPPLY AND RELATED ITEMS United States (Billions $)	Oct. 25 1950	Changes in— four weeks	Changes in— year
Money supply, privately owned	173.0	+1.3	+ 5.3
Demand deposits, adjusted	89.4	+1.3	+ 5.1
Time deposits	59.1	0	+ .6
Currency outside banks	24.6	0	− .4
Turnover of demand deposits	21.5*	−1.8*	+12.6*
Commercial bank earning assets	124.5	+ .8	+ 5.0
Loans	49.9	+ .9	+ 8.1
U.S. Government securities	62.5	0	− 5.0
Other securities	12.1	0	+ 1.9
Member bank reserves held	16.6	0	+ .5
Required reserves (estimated)	15.9	+ .1	+ .6
Excess reserves (estimated)	.7	− .1	− .1

Changes in reserves during 4 weeks ended October 25 reflected the following:

	Effect on reserves
Net payments by the Treasury	+ 7
Gold and foreign transactions	− 3
Decrease in Reserve Bank holdings of Governments	− 1
Decrease in other Federal Reserve Bank credit	− 2
Increase of currency in circulation	− 1
Change in reserves	0

*Annual rate for the month and per cent changes from month and year ago at leading cities outside N. Y. City.

OTHER BANKING DATA	Nov. 22 1950	Changes in— four weeks	Changes in— year
Weekly reporting banks—leading cities			
United States (*billions* $):			
Loans—			
Commercial, industrial and agricultural	17.0	+ .6	+ 3.2
Security	2.2	+ .1	+ .2
Real estate	5.2	+ .1	+ .9
To banks	.2	0	0
All other	5.8	+ .1	+ 1.5
Total loans—gross	30.4	+ .9	+ 5.8
Investments	39.6	− .5	− 2.8
Deposits	77.9	+ .1	+ 2.7
Third Federal Reserve District (*millions* $):			
Loans—			
Commercial, industrial and agricultural	609	+ 14	+126
Security	45	+ 2	+ 12
Real estate	141	+ 6	+ 38
To banks	7	+ 7	− 3
All other	379	+ 3	+ 73
Total loans—gross	1,181	+ 32	+246
Investments	1,731	+ 24	− 97
Deposits	3,198	+ 26	+146
Member bank reserves and related items			
United States (*billions* $):			
Member bank reserves held	16.6	0	+ .6
Reserve Bank holdings of Governments	19.3	+ .1	+ 1.6
Gold stock	23.1	− .2	− 1.4
Money in circulation	27.5	+ .3	− .1
Treasury deposits at Reserve Banks	.5	+ .1	+ .1
Federal Reserve Bank of Phila. (*millions* $)			
Loans and securities	1,294	+ 11	+ 82
Federal Reserve notes	1,638	+ 23	+ 27
Member bank reserve deposits	769	− 22	+ 26
Gold certificate reserves	1,256	+ 1	+ 8
Reserve ratio (%)	49.2%	− .4%	− 1.9%

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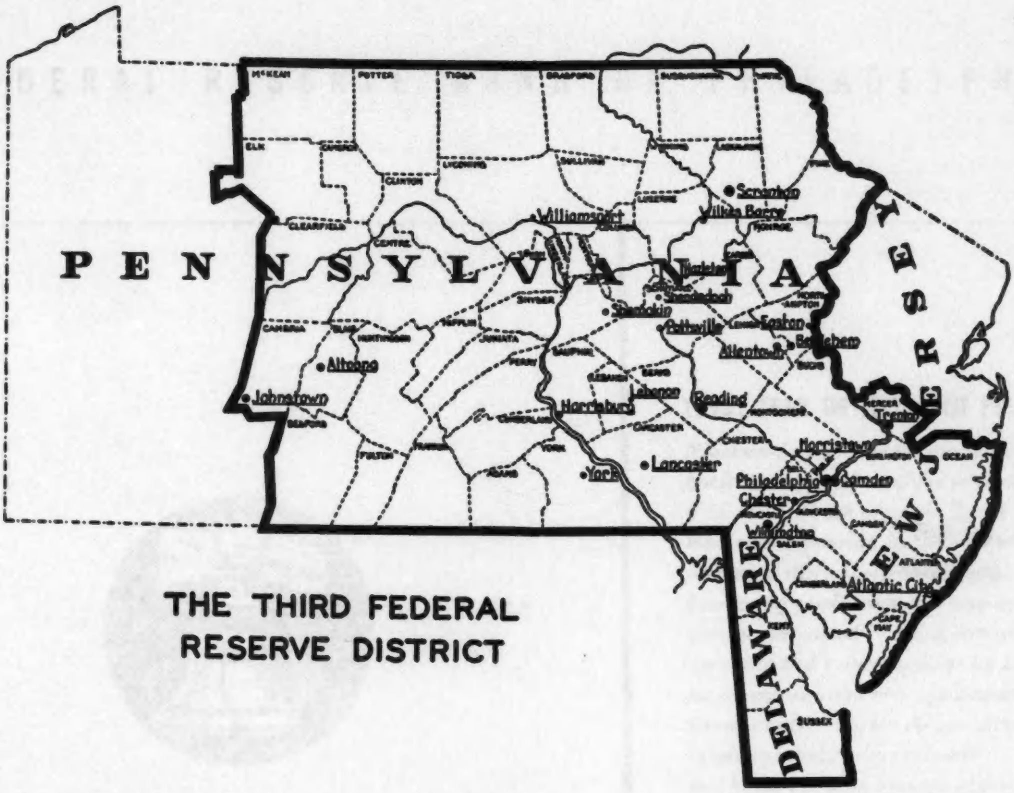
THE BUSINESS REVIEW

FEDERAL RESERVE BANK OF PHILADELPHIA



THE THIRD FEDERAL
RESERVE DISTRICT